

HOUSE BILL REPORT

E2SSB 5111

As Reported by House Committee On:
Technology, Energy & Communications
Finance

Title: An act relating to providing incentives to support the renewable energy industry in Washington state.

Brief Description: Providing tax incentives for solar energy systems.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Morton, Poulsen, Parlette, Roach, Schmidt, Oke, Hewitt, Zarelli, Finkbeiner, Stevens, Swecker, Deccio, Honeyford, Mulliken, Kline and Sheldon).

Brief History:

Committee Activity:

Technology, Energy & Communications: 3/31/05 [DPA];
Finance: 4/4/05 [DPA(FINw/oTEC)p].

**Brief Summary of Engrossed Second Substitute Bill
(As Amended by House Committee)**

- Establishes tax incentives for the manufacture of solar energy systems.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: Do pass as amended. Signed by 10 members: Representatives Morris, Chair; Kilmer, Vice Chair; Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Ericks, Hudgins, Nixon, Sump, Takko and Wallace.

Staff: Sarah Dylag (786-7109).

Background:

Most manufacturing businesses in the state pay the general manufacturing business and occupation (B&O) tax of 0.484 percent times the value of their product. Special B&O tax classifications and rates have been enacted by the Legislature to address specialized situations, such as the semiconductor manufacturer classification, enacted in 2003, to create incentives for the semiconductor industry.

Many manufacturing businesses are eligible for a sales and use tax exemption that exempts all machinery and equipment used in manufacturing, and installation labor, from the sales and use tax.

Current law also provides additional tax incentives for certain businesses that locate in rural counties with fewer than 100 people per square mile, including the following that apply to manufacturing businesses:

- a sales and use tax exemption on buildings and equipment used in manufacturing;
- a 20 percent B&O tax credit for job training up to \$5,000 per year; and
- a B&O tax credit for new manufacturing, research and development, or computer service jobs; \$2,000 for jobs paying less than \$40,000 per year and \$4,000 for jobs paying at least \$40,000.

Summary of Amended Bill:

The B&O tax for businesses manufacturing solar energy systems and for businesses engaged in making sales at wholesale of solar energy systems is set at a rate equal to the value of the product multiplied by 0.138 percent. Taxes paid in manufacturing these systems is granted as a B&O tax credit. These two provisions expire on June 30, 2010.

The following additional tax incentives are provided for solar energy system manufacturers that locate in a rural county, defined as a county with less than four people per square mile:

- a sales tax exemption for the construction of new buildings;
- a use tax exemption on tangible personal property incorporated into the project;
- a B&O tax job credit of \$3,000 for each full-time manufacturing production position; and
- a property tax exemption on the machinery and equipment used in manufacturing.

No application for any of the tax incentives is necessary, except for the property tax exemption which must be filed with the appropriate county assessor. Businesses claiming exemptions or credits under this program must file annual reports with the Department of Revenue (Department) detailing employment, wages, and health and retirement benefits.

A person claiming credit under existing law for qualified employment positions in a rural county or for employment positions for the manufacturing of semiconductors cannot also receive the B&O job tax credit.

Using existing sources of information the Department must report on the impact of the incentives to the appropriate committees of the Legislature by December 1, 2009. The report must include the total number of solar energy system manufacturing companies in the state, any change in the number of solar energy system manufacturing companies, and, where relevant, the effect on job creation, the number of jobs created for Washington residents, and other factors selected by the Department. The Department must not conduct any new surveys to provide this information to the Legislature.

Amended Bill Compared to Engrossed Second Substitute Bill:

The amended bill requires the Department to use existing information to provide information to the Legislature regarding the impact of the incentives. In addition, the amended bill changes the year for the incentives to expire from 2014 to 2010. The amended bill clarifies that a person claiming credit under existing law for qualified employment positions in a rural county or for employment positions for the manufacturing of semiconductors cannot also receive the B&O job tax credit.

Appropriation: None.

Fiscal Note: Requested on March 18, 2005.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect on July 1, 2005.

Testimony For: This bill will provide benefits to small counties in the state. Small counties, including the smallest county in the state, need this kind of opportunity to attract these companies to the small counties.

This bill would help the environment, but the issue here is not economy versus environment. This bill will drive investment and job creation. The industry is growing at a fast rate and companies are investing money in expanding. This bill will help growing companies keep up with national and international markets and will provide incentives to growing companies to locate in this state.

The bill defines rural county as less than four people per square mile. This differs from the way rural county is defined under current law for some other incentives. Consideration should be given to expanding that definition to include a larger number of people.

Testimony Against: None.

Persons Testifying: Senator Morton, prime sponsor; Pat Haley, Port of Douglas County; Tom Starrs, Bonneville Environmental Foundation and American Solar Energy Society; Marc Roper, RWE Schott Solar; Clifford Traisman, Washington Conservation Voters; Solar Richard, Tacoma's First Solar; and Larry Stevens, National Electrical Contractors Association.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass as amended by Committee on Finance and without amendments by Committee on Technology, Energy & Communications. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Conway, Ericksen, Hasegawa and Santos.

Staff: Mark Matteson (786-7145).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Technology, Energy & Communications:

Removes the sections concerning sales, use, and property tax exemptions. Removes the section providing a credit against business and occupation tax for full-time employment positions created. Modifies the preferential B&O tax rates for manufacturing or wholesaling solar energy systems to be 0.2904 percent and to become effective October 1, 2005.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill contains an emergency clause and takes effect on July 1, 2005.

Testimony For: Senate bills 5101 and 5111 are being sponsored in tandem. This gives the opportunity for either Ferry or Garfield County to potentially get a manufacturer of solar panels to locate in-county. There has been contact by a firm that has a strong interest. This would be very important for Ferry and Garfield's county economies and that of the state. The two bills should move together.

Solar photovoltaic (PV) technology holds the most promise of all solar technologies. PV technology reduces dependence on foreign energy, produces no pollutants or greenhouse gases, makes the electrical grid more resilient to disruption, has no moving parts to wear out or break, and yields large numbers of local, living-wage jobs. Use is skyrocketing. After growing 34 percent in 2003 and 44 percent in 2002, global sales grew 62 percent last year. By 2015 they are expected to be around \$50 billion.

The leadership in this technology has shifted dramatically to Germany and Japan. This has been purely the result of strategic public policy. The legislation currently before this committee is patterned closely upon the German laws that led to these increases. Last year, 40 percent of the world's PV installations were in Germany and 30 percent were in Japan; only 9 percent were in the United States.

This bill, along with SB 5101, represents the most important solar legislation ever introduced in any state Legislature. It holds the potential to catapult Washington into the leadership ranks as one of the world's most robust areas of economic growth.

This is good for the electrical contracting industry and business in general. The National Electrical Contractors Association has tried to stay ahead of the curve and train their apprentices in solar installations.

The Sierra Club supports both these bills. There is a blending of good environmental policy and economic development policy.

This sets the stage to make the promise of renewable and distributive energy a reality here. The Appollo Alliance ten-point plan for the state includes both types of legislation now before you. It is more effective than capacity-incentive systems.

Three years ago Mike Nelson authored a study that looked at the solar industry in this state. While the state was an early leader, not much has been done to maintain the lead. Boeing was a big early player but walked away. A Canadian company bought up a manufacturer here and then relocated most of the jobs. Applied Power out of Lacey was bought by a German concern that relocated the facility to California. The industry in this state needs more support. This is not a threat to existing utilities.

Testimony Against: None.

Persons Testifying: Senator Morton, prime sponsor; Dennis Hayes, Bullitt Foundation; Larry Stevens; National Electrical Contractors Association; Craig Engelking, Sierra Club; Rich Feldman Apollo Alliance Washington; and Mike Nelson, citizen.

Persons Signed In To Testify But Not Testifying: None.